

CHAPTER XVI

THE MODES OF ESTIMATING THE COST AND EETUEN OF SECURITIES

IT is here proposed to explain the mode in which the exact cost of a security can be determined apart from any fraction of interest which its price may include; the rate of return which is realised in proportion to the price which has been paid; the nature and effect of the symbols *x d.* and *a? in.* when attached to market quotations, and the manner of computation, with the use, of sinking funds.

I.—ACCRUED INTEEEEST AS AFFECTING THE COST OF SECUEITIES.

The explanation will be simplified if we regard the investor in his true position. When, for example, he has purchased stock from the nation (Government securities), or the debenture stock or shares of a railway, or the bonds of a municipal corporation, he is customarily termed the owner of the security. But his real position is that of a creditor of the Government, the railway company, or the corporation. "When the Government, company, or corporation first borrowed money by issuing these acknowledgments of indebtedness, certain persons made the advances, and received certificates or bonds in exchange as evidence of the loans; one after another these securities passed by sale through a series of buyers, each of whom thus occupied the position and acquired the, rights of the original lender, and the last purchaser at any moment becomes the actual creditor himself. What he possesses is a debt (based upon value) expressed in the bond or other document issued by the borrower and bearing interest. The loan means that the lender (or the successor in title, of the original lender) has